

COVID19 OUTBREAK LIKELY IMPACT ON MARKETS and FOOD SECURITY IN SOUTH SUDAN

25 March 2020

Background

South Sudan heavily depends on export of oil, the reopening of some damaged oil wells following the peace agreement in 2018 pushed up daily oil production (export) by about 20 percent in February 2019. Despite the increase, access of hard currency to importers from banks has not yet started, and therefore traders still depend on the informal market. The oil revenue will be impacted by the collapse of the world oil prices amidst the spread of COVID19 across several important players in the world economy. Plummeting international commodity prices translate into heavy losses in export earnings, this means the trade deficit of over 2 billion SSP¹ will widen. The decrease in oil prices will also trigger currency depreciation and an adjustment in the balance of payments.

Figure 1: Brent crude oil price in USD per barrel



Source: trading economics

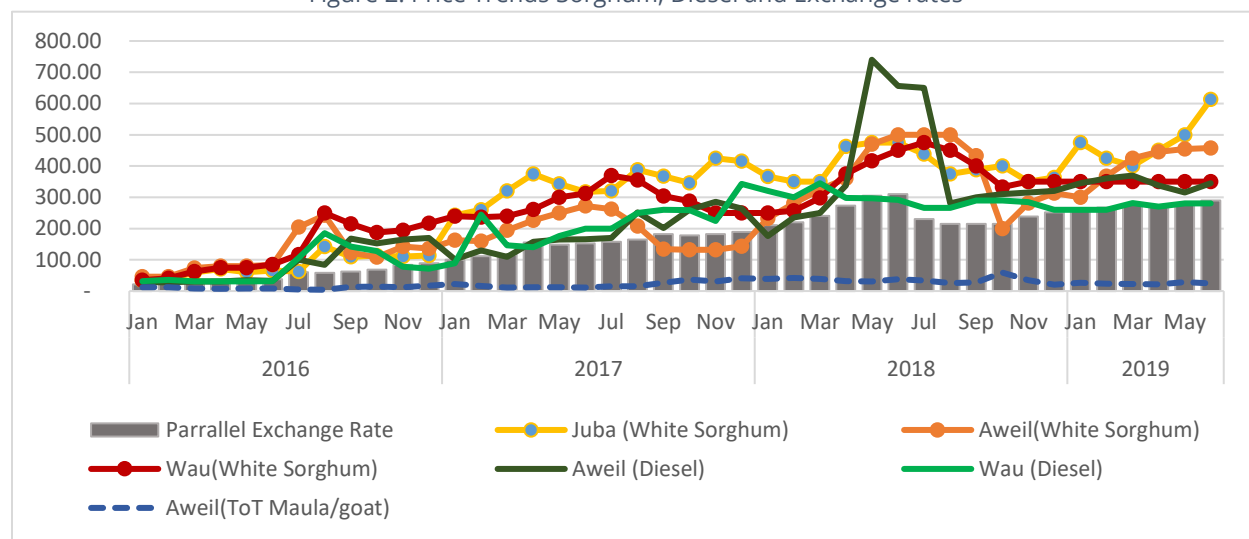
South Sudan is a net cereal importer with an estimated gap of 483,000 mt in 2020, 7 percent lower than last year but still continue to be significant as it is 22% higher than the previous five years average. In 2019, the cereal deficit increased in the persistently deficit and import dependent states of Northern Bahr el Ghazal, Jonglei, Unity, Upper Nile and Warrap, due to flooding that affected crop production. The food gap is met through food aid making over 300,000 mt of mixed commodities and

¹ Trading Economics

the balance from commercial imports of which in 2019, 215,000 mt² was maize from Uganda. Uganda and Sudan are the main source of food commodities for South Sudan, hence COVID19 outbreak resulting in limited commercial activity in both Uganda and Sudan and border closure limiting movement of commodities will negatively impact traded volumes and therefore putting pressure on prices for both cereals and industrial (processed) commodities across all markets in South Sudan.

Prices of commodities generally traces the parallel exchange rate of the SSP to the USD (see Figure 2). The average exchange rate of South Sudanese Pound to United States Dollar in the parallel market of Juba has continued depreciating since the conflict of 2016. The rate depreciated by about 13 percent, relatively at lower rate as compared to 28 percent depreciation in the preceding six months (October 2018 - March 2019). The exchange rate in the parallel market depreciated from SSP 274 per US Dollar in April to SSP 311 in September 2019. Pressure from reduced production in Uganda and the insecurity in Sudan coupled with the reduction in oil revenues as well as the limitation in the free commercial trade movement following the COVID19 resulted in the SSP undergoing a sharp devaluation following an appreciation in value to SSP270/USD following the formation the formation of the Government of National Unity end of February 2020. With border closure between Uganda and South Sudan in the third week of March 2020 as a result of COVID19, the SPP on the parallel market depreciated to previous high levels of end of 2019 from SSP 270/USD to 310/USD. This currency depreciation and likely reduced traded volumes through the border will continue putting pressure on the already very high and above five-year average and above all East African counties' commodity prices in South Sudan.

Figure 2: Price Trends Sorghum, Diesel and Exchange rates



Source: WFP

From the Global markets, on March 9 all the major stock indices plunged by 5 to 11 percent, due to the combined effect of coronavirus panic and crashing oil prices. When financial markets become

² WFP East Africa Markets Bulletin

spooked by risk, poor countries like South Sudan are put in danger of **losing their ability to borrow and spend when they most need it.**

Moreover, even though it's too early to predict, China being the world's biggest trading nation with agriculture and food constituting a significant share of the country's trade portfolio, the impact of the new coronavirus epidemic in the East Africa region could have significant socio-economic repercussions, with significant potential impacts on livelihoods, food security, national economies and global financial and food markets. For South Sudan, a country that rely heavily on imports and has huge supply-chain exposure to China, factory shutdowns in China, import bans, increased shipping and freight costs, suspension of flights and restrictions on the movement of goods and people could potentially disrupt trade and market chains with knock-on effects on imported food prices.

These economic shocks are likely to exacerbate the severity of acute food insecurity in South Sudan, especially considering that the country is approaching the peak of the lean season, when household stocks have generally been exhausted, market prices are at their highest, as are food and nutrition insecurity. According to the recent IPC analysis, conducted in January 2020, even before any news around the spreading of COVID19, a total of 6.5 million people were expected to experience acute food insecurity in the May-July 2020 period.

Diminished expensive earnings and ensuing currency depreciation translate into more expensive imports, including for basic food stuff, representing a major risk for South Sudan, a country with low-production which heavily relies on imported goods even for the most basic of commodities. Increased food prices curtail households' purchasing power, putting households' access to food at risk, and forcing them to activate coping mechanisms ranging from switching to cheaper, less nutrition foods, to reducing their consumption and/or going entire days without food.

Impact of a possible COVID19 spreading in South Sudan: *"Poverty can fuel contagion, but contagion can also create or deepen impoverishment³"*

The outbreak of COVID 19 resulting in border closures, limiting free movement of goods and people across the borders will have a significant impact on South Sudan consumers given its import dependency. The following are the impacts that will worsen if the outbreak spreads into the country.

1. **Loss of oil revenue:** The plummeting oil prices to the 2008 global economic crisis will impact on Government revenue affecting its ability to meet import obligations and payment of public service salaries that are already in arrears. This will negatively impact the economy, which already had negative trade balances and Gross Domestic Product (GDP), the shortage of hard currency and the exchange rate that has started to depreciate after starting to recover. This will affect commercial imports that are desperately needed for traders to preposition before the start of the rainfall season from April 2020. The oil revenue and its impact on the wider economy will have other ripple negative effects such as depreciated exchange rate and decreased commercial food in the markets and decreased purchasing power particularly of civil servants, pastoralists and those dependent on markets during the lean season.

³ <https://www.odi.org/blogs>

2. **Currency depreciation and market-dependent populations:** According to the 2008 Census, 17% of South Sudan's population live in urban areas. However, this figure is now estimated to be over 25%. The July-August (indicative of lean season) 2019 FSNMS reports that increasingly high proportions of the population are market dependent for their cereal consumption, with the highest percent recorded in Northern Bhar el Gazal (73 percent), Central Equatoria (61percent), Upper Nile (58 percent) and Eastern Equatoria (56 percent). These states largely and primarily depend on commodity imports and devaluation, which increases the prices of imported goods, will negatively affect their purchasing power. This is likely to result in the rapid depletion of assets, especially livestock for market-dependent households.
3. **Possible rise in nominal price of fuel** amidst scarcity and erratic supply to markets, likely to cause further upward pressure on the prices through inflated transport costs. Increased fuel prices immediately triggered corresponding upward adjustment in transport fares and cost of transporting commodities further spiraling the retail costs of food. Transport costs typically comprise 15-30 percent of food prices in South Sudan and so increased prices of fuel are likely to be shouldered by urban poor households who are highly dependent on markets but also market-dependent rural poor in some areas of the country.
4. **Impact on commodity flows and prices:** Whilst the Governments in the East African Region including Uganda and Sudan that are the major source of commodities for South Sudan (see Figure 3 below) have indicated that they will allow commercial and food aid cargo to continue moving cross the borders, the screening process has slowed down the commodity movement.

Figure 3: Trade flows



Source: REACH South Sudan Joint Markets Monitoring Initiative, December 2019

Whilst the impact on cross border trade volumes, will become clearer when the East Africa Regional cross border trade bulletin is released next month, in March 2020 the prices of commodities have already started to react to the border closures in South Sudan and Uganda the main source market.

Juba- Konyokonyo	Uganda
<ul style="list-style-type: none"> - 50 kg bag of maize flour increased from SSP 4,500 to SSP 6,700 (+49%); - 50 kg bag of wheat flour increased from SSP 4,500 to SSP 6,000 (+33%); - 20 liters of cooking oil increased from SSP 4,500 to SSP 7,000 (+56%); - In Gudele, a 10kg bag of flour increased from SSP 1,200 to SSP 3,000 (+150%) 	<ul style="list-style-type: none"> - In Moyo, a small packet of salt used to be 800 USH, now sold at 5,000 USH (+525%); - in Adjumani, the same packet of salt used to be 500 USH, now sold at 2,000 USH (+300%); - in Arua, the price of a bag of 25kg of sugar has increased from USH 58,000 to USH 80,000 (+38%); - in Arua, the price of a bag of 50kg of rice has increased from USH 70,000 to USH 98,000 (+40%)

Prices of imported and processed commodities such as sugar, maize flour, water, soft drinks etc. are likely to continue with an upward seasonal trend, though at a much steeper rate driven by the already high prices resulting from COVID 19 border closures.

5. **Real incomes of casual labourers:** A significant vulnerable layer in urban areas, were already on a downward spiral and are likely to be further impacted on by currency devaluation. The purchasing power of these populations will continue to be compromised going forward if the SSP continue losing its value. Casual and fixed income workers paid in SSP will be trapped with lower wages, as their purchasing power continually diminishes (as inflation rises). The worst hit will be the urban poor and rural low-income market-dependent earners. There is likely to be increased workers' agitation for higher wages to meet the skyrocketing cost of living. Workers will be forced to engage in multiple incoming generating activities in order to cope with the rising cost of living and reduced purchasing power, and any form of isolation to protect the spreading of COVID19 will be really challenging to a population surviving from day to day.
6. **Food security:** Apart from the food security implications of a COVID-19-triggered economic slowdown, an extensive spread of the disease in South Sudan, a poorer and food insecure country with extremely limited basic infrastructures, could take a heavier toll in terms of mortality rates. Countries with high levels of food insecurity are generally more vulnerable and less prepared for an epidemic outbreak than those which see a rapid spread of the disease at present. The joint WHO-JRC Epidemic Risk Index, which measures risk based on hazard, exposure, vulnerability and coping capacity is higher for countries with a higher score for the Proteus index of food insecurity (figure 4 below).

Figure 4: Food security and epidemic risk



Source: WHO/JRC and WFP calculations

7. **Agriculture production:** In South Sudan, a larger hit of the COVID19 on the workforce would negatively affect the agricultural sector, characterized by labour intensive production, aggravating the repercussions on production. As the main agricultural season is about to start, especially in the Green Belt, reduced labour force and, in turn, reduced production is likely to have long-lasting effects on 2020-2021 production levels, compromising food security for the next year or so. The COVID 19 will be further aggravated by the desert locusts' outbreak if this is not controlled.

Figure 5: South Sudan Agricultural Calendar

		Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
Unimodal rainfall zone found in Greater Bahr el Ghazal; Greater Upper Nile	Rainfall	Dry season		Wet season						Dry season			
	Main crop		Land preparation and planting		Growing season			Harvest					
	Long-cycle crops			Growing season						Harvest			
Bimodal rainfall zone found in Greater Equatoria	Rainfall	Dry season	Wet season								Dry season		
	First crop	Land preparation and planting		Growing season			Harvest						
	Second & third crops						Land preparation and planting		Growing season		Harvest		

Source: FAO

Possible mitigating factors

However, there are also factors that could mitigate the damage of a COVID-19 outbreak in South Sudan, like the age structure of its population. The share of people with the highest risk (by age) of developing severe disease or dying is far lower in South Sudan than in, for example, China or Europe. Moreover, a sparse and predominantly rural based population and more limited travel networks both within the country and within the region could reduce the pace at which COVID-19 spreads.

Measures to prevent an exacerbation of the food security situation

While COVID-19 is a health emergency it *is likely to* contribute to a food security emergency. Beyond measures to contain the disease it is essential to continue providing food assistance to support vulnerable populations. Thus, it is important

- (1) To continue monitoring food prices and markets, as they represent a very critical indicator for the evolution of the food security situation. Information will be collected and shared timely with decisionmakers and all actors. This will help evidence-based programming and will support choice for most appropriate assistance modalities, including definition of transfer value for CBT operations, in a time of rapidly changing food prices;
- (2) To continue providing support to the most vulnerable populations through shock-responsive assistance and consider monitoring additional population groups that could become vulnerable and in need of food assistance, as a result of COVID19 related effects, particularly in urban areas.